

# FDIC State Profile

Summer 2005

## West Virginia

West Virginia's economy continues a measured expansion.

- West Virginia continued its economic recovery in first quarter 2005 as the jobless rate neared pre-recession lows and payroll employment growth continued at a steady pace (See Chart 1). Among job generating sectors in the state's economy, construction and health services have added the most number of workers over the past year. While the pace of significant job losses in manufacturing has slowed, layoffs in other goods producing sectors have limited the state's recovery.
- Recent job gains in coal mining sectors have been particularly noteworthy, as the industry underwent significant contraction in the late 1990s because of improved technology and low energy prices. Additional short-term growth in this sector is currently constrained by both a lack of trained mine workers and a worldwide shortage of large tires for the earthmoving equipment required for mining. Coal extracted from West Virginia seams has the highest spot price of any region in the nation.
- Most metropolitan areas in the state experienced payroll increases in first quarter 2005, compared with year-ago levels. The **Parkersburg-Marietta** metropolitan area, however, remains an exception as quarterly net losses in jobs have persisted for more than a year. In contrast, **Morgantown** and the **Eastern Panhandle** remain strong. Overall, 38 of West Virginia's 55 counties saw jobless rates improve from year-ago levels.
- West Virginia's economic outlook appears positive in the short-term; however, economic disparities within the state continue. While the Eastern Panhandle is benefiting from its proximity with the thriving **Washington, D.C.** metropolitan area, the remaining counties in the state face the risk of ongoing erosion in manufacturing industries because of global competition. Although job growth in lower-wage health care services has occurred in these areas, long-term economic growth is contingent on the creation of higher wage jobs.

Chart 1: Job Growth in West Virginia Remains Stable

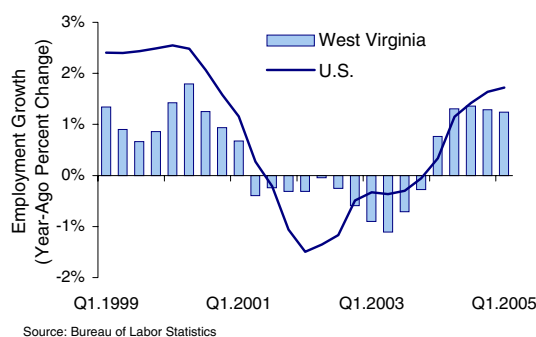
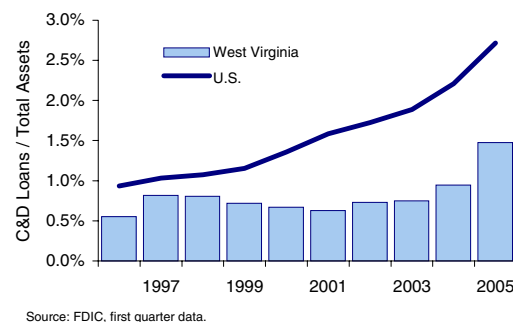
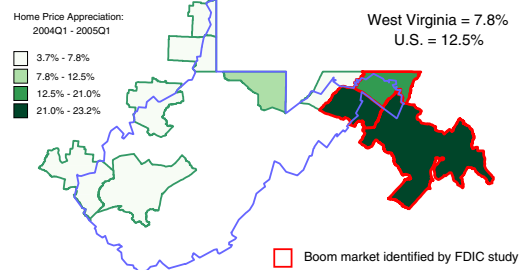


Chart 2: C&D Loan Levels Surged in West Virginia



Map 1: West Virginia Home Price Appreciation Is Strongest in the Eastern Panhandle



Source: Office of Federal Housing Enterprise Oversight House Price Index, FDIC FYI  
Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005.

## Robust construction lending at West Virginia community banks is supporting the housing sector.<sup>1</sup>

- The rapid growth of West Virginia residential permit issuance has moderated in first quarter 2005, with nearly all permits issued for single-family structures. The three county Eastern Panhandle region (**Jefferson, Berkeley, Morgan counties**) comprised nearly 60 percent of permits issued in first quarter 2005. The **Charleston** metropolitan area saw its first quarterly decline in permit issuance, following two-years of growth.
- Construction and development (C&D) lending grew nearly 82 percent from a year ago. The median C&D loan exposure rose to 1.48 percent of assets, up from 0.94 percent a year earlier. However, this level of exposure remains below the national rate (See Chart 2). Lending was most active in the Charleston MSA where C&D loans represent 23 percent of capital. While this level of exposure only ranked 189<sup>th</sup> out of 225 metropolitan areas nationally, it has been increasing over the last year.

## Home prices are near record levels relative to income although price appreciation in the state is below the national level.

- Statewide home price appreciation continued a steady rate of growth, in contrast to the rapid pace of appreciation experienced last year. Overall, the state ranks 31<sup>st</sup> among all states in the rate of appreciation for first quarter 2005. Home price appreciation in the Eastern Panhandle remains the strongest in the state, while appreciation in Charleston is the lowest among other metropolitan areas (See Map 1). A recent FDIC study identified 55 “boom” markets nationwide that had rapid price gains in 2004—three of which were partially located in the eastern area of the state.<sup>2</sup>
- Incomes in West Virginia have kept pace with home price appreciation (See Chart 3). While the statewide median home price to income ratio remains below national levels, it is just slightly below the record level in 2002 (See Chart 4). Reflecting the possibility that home buyers may be stretching to purchase housing is the increased share of adjustable-rate mortgage originations (ARMs) at insured institutions in the state. ARM originations have more than tripled over the last two years to a 25 percent share.

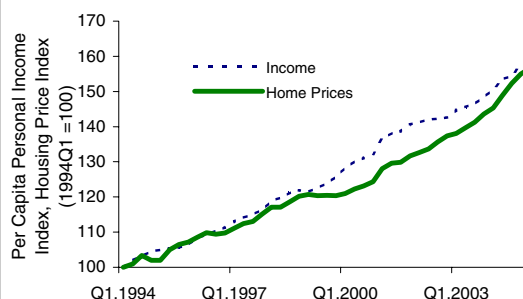
<sup>1</sup>Community banks include all financial institutions with assets less than \$1 billion and exclude specialty and de novo institutions.

<sup>2</sup>Cynthia Angell and Norman Williams, FDIC FYI Revisited “U.S. Home Prices: Does Bust Always Follow Boom?” May 2, 2005. [www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html](http://www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html). A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

## Despite an increase in net interest income, community bank profitability declined.

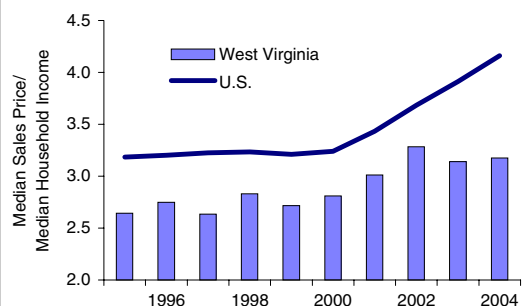
- Return on assets (ROA) at West Virginia community banks has declined in the first quarter in each of the last three consecutive years. During the first three months of 2005, ROA fell 4 basis points to 0.94 percent from the year-earlier period. Despite expanding net interest margins, resulting from strong C&D loan growth, lower securities gains and increased loan loss provisions led to the decrease in ROA (See Chart 5).

Chart 3: Income Growth in West Virginia Has Kept Pace With Home Price Appreciation



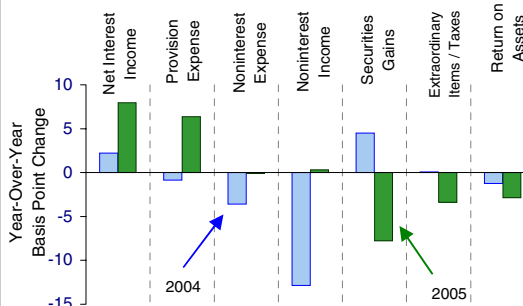
Source: Bureau of Economic Analysis, Office of Federal Housing Enterprise Oversight

Chart 4: Home Price-to-Income Ratios in West Virginia Remain Below the National Average



Source: Bureau of Census and Economy.com

Chart 5: Rising Provision Expense Has Constrained West Virginia Community Bank Return on Assets



Source: FDIC, first quarter data.

## West Virginia at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	0.8%	-0.9%	-0.3%	0.7%
Manufacturing (9%)	-1.0%	-3.4%	-6.3%	-5.7%	-3.9%
Other (non-manufacturing) Goods-Producing (8%)	9.6%	4.2%	-7.5%	3.8%	3.2%
Private Service-Producing (64%)	1.0%	1.2%	0.2%	-0.2%	1.6%
Government (19%)	0.2%	0.0%	0.8%	0.6%	-0.7%
Unemployment Rate (% of labor force)	5.0	5.4	6.0	5.5	5.1

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	4.3%	2.7%	3.4%	6.1%
Single-Family Home Permits	8.5%	36.6%	-0.4%	6.6%	5.9%
Multifamily Building Permits	-8.4%	185.2%	-36.5%	-42.6%	108.5%
Existing Home Sales	14.9%	13.1%	-4.0%	31.8%	1.0%
Home Price Index	7.8%	5.2%	4.1%	3.6%	5.9%
Bankruptcy Filings per 1000 people (quarterly level)	1.81	1.65	1.54	1.46	1.49

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	72	74	76	77	77
Total Assets (in millions)	20,465	19,133	20,592	19,539	18,456
New Institutions (# < 3 years)	1	3	2	3	5
Subchapter S Institutions	4	3	3	3	2

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.87	2.07	2.67	2.78	3.02
ALLL/Total Loans (median %)	1.15	1.13	1.24	1.20	1.14
ALLL/Noncurrent Loans (median multiple)	2.01	1.89	1.30	1.28	1.26
Net Loan Losses / Total Loans (median %)	0.18	0.21	0.17	0.19	0.16

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.91	9.76	9.62	9.85	9.78
Return on Assets (median %)	1.00	1.00	0.97	1.00	0.96
Pretax Return on Assets (median %)	1.48	1.49	1.45	1.47	1.40
Net Interest Margin (median %)	4.43	4.37	4.42	4.32	4.28
Yield on Earning Assets (median %)	6.97	6.94	7.09	7.28	7.51
Cost of Funding Earning Assets (median %)	2.54	2.53	2.72	2.93	3.22
Provisions to Avg. Assets (median %)	0.19	0.19	0.18	0.20	0.18
Noninterest Income to Avg. Assets (median %)	0.53	0.51	0.51	0.52	0.51
Overhead to Avg. Assets (median %)	3.18	3.17	3.11	3.12	3.09

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	66.5	63.8	60.6	62.6	62.2
Noncore Funding to Assets (median %)	15.8	14.1	12.1	12.2	12.6
Long-term Assets to Assets (median %, call filers)	26.9	28.8	25.8	22.2	19.1
Brokered Deposits (number of institutions)	12	10	9	6	4
Brokered Deposits to Assets (median % for those above)	2.7	0.8	0.7	0.6	1.1

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	65.5	64.9	61.8	61.1	61.5
Commercial Real Estate	151.5	155.3	133.7	121.4	111.0
Construction & Development	14.4	10.8	8.2	7.8	6.6
Multifamily Residential Real Estate	1.5	0.8	1.3	1.3	0.8
Nonresidential Real Estate	124.1	116.4	115.9	113.5	103.1
Residential Real Estate	283.2	276.1	272.6	275.9	280.8
Consumer	72.7	78.5	82.4	100.6	104.3
Agriculture	1.8	1.8	1.6	1.7	2.5

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Charleston, WV	23	4,229	< \$250 million	60 (83.3%)
Huntington-Ashland, WV-KY-OH	28	3,453	\$250 million to \$1 billion	9 (12.5%)
Hagerstown-Martinsburg, MD-WV	16	2,641	\$1 billion to \$10 billion	3 (4.2%)
Wheeling, WV-OH	15	2,476	> \$10 billion	0 (0%)
Parkersburg-Marietta, WV-OH	24	2,179		